

# Currents

Western Canada's Monthly Economic Bulletin

► LOW INCOME IN THE WEST

► THE VALUE OF FARMING

► SASKATCHEWAN'S POTASH IS KING

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## Monthly Highlights

Canada's economic growth slowed markedly in the second quarter of the year. Real GDP advanced only 0.5% in the second quarter, down from a 1.3% average over the two previous quarters. Higher imports and a deceleration in personal

spending and exports were the main reasons behind the slow down.

In August, employment rose in BC and Saskatchewan (+5,400 jobs each) but dropped in Alberta following four consecutive monthly gains (-4,700 jobs). The Saskatchewan job

gain was the strongest in two years. At 4.8%, Saskatchewan's unemployment rate is the lowest in Canada, followed by Manitoba's at 5.6%. In comparison, the national unemployment rate has been near or above 8% for a year and a half.

July's inflation picture was somewhat of a carbon copy of June for Manitoba as once again it was the only province where consumer prices did not rise. Manitoba prices for gasoline, natural gas, and home and mortgage insurance all declined. At 2.0%, BC was the lone western province with inflation above the national average in July.

In June, wholesale trade declined in BC and Saskatchewan (-2.4% and -1.9%, respectively) but rose in Alberta (+1.6%)—the best performance in the country. Retail sales barely budged in the West, except in Saskatchewan where they advanced 0.7%. Still in June, Alberta average weekly earnings passed the \$1,000 threshold for the first time ever and remain by far the highest in the country.

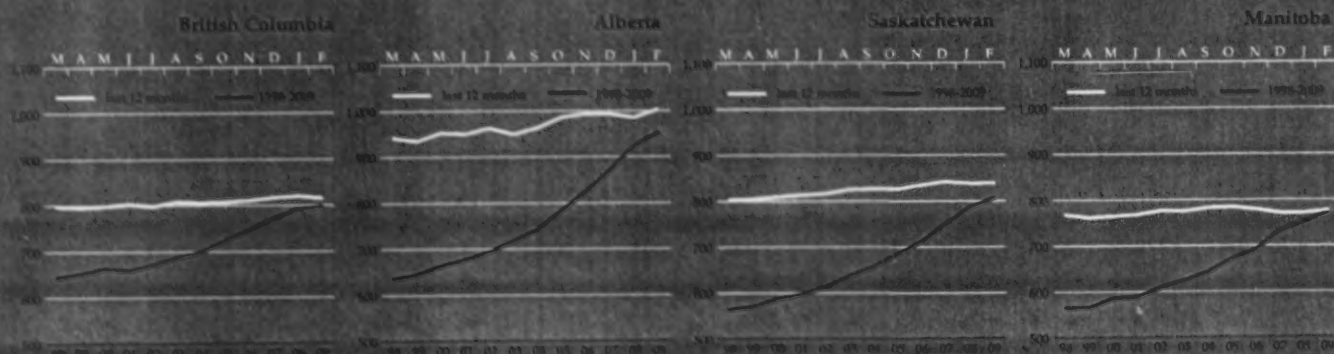
| Monthly Economic Statistics      | BC     | AB       | SK     | MB     | Canada | Reference Month |
|----------------------------------|--------|----------|--------|--------|--------|-----------------|
| <b>Labour Markets</b>            |        |          |        |        |        |                 |
| Employment (000s)                | 2,321  | 2,004    | 531    | 622    | 17,216 | August          |
| % change                         | 0.2    | -0.2     | 1.0    | 0.2    | 0.2    |                 |
| Unemployment rate (%)            | 7.3    | 6.5      | 4.8    | 5.6    | 8.1    | August          |
| change in percentage points      | -0.2   | 0.2      | -0.3   | 0.0    | 0.1    |                 |
| Participation rate (%)           | 66.0   | 73.0     | 70.3   | 70.1   | 67.4   | August          |
| Average weekly earnings (\$)     | 815.28 | 1,003.53 | 838.90 | 785.19 | 853.50 | June            |
| % change                         | -0.6   | 1.9      | 0.1    | 0.2    | 0.7    |                 |
| <b>Inflation</b>                 |        |          |        |        |        |                 |
| Consumer Price Index (% change)* | 2.0    | 1.5      | 0.4    | -0.3   | 1.8    | July            |
| <b>Economic Activity</b>         |        |          |        |        |        |                 |
| Housing starts (000s)**          | 22.8   | 29.1     | 5.3    | 9.7    | 188.9  | July            |
| % change                         | -15.2  | 8.2      | -14.5  | 19.8   | -1.6   |                 |
| Retail trade (\$M)               | 4,830  | 4,834    | 1,230  | 1,289  | 35,934 | June            |
| % change                         | -0.3   | -0.2     | 0.7    | 0.0    | 0.1    |                 |
| Wholesale trade (\$M)            | 3,961  | 4,969    | 1,297  | 1,026  | 43,938 | June            |
| % change                         | -2.4   | 1.6      | -1.9   | 0.2    | -0.3   |                 |
| Manufacturing sales (\$M)        | 3,007  | 4,944    | 978    | 1,200  | 44,814 | June            |
| % change                         | 2.1    | -0.3     | -1.4   | 4.8    | 0.1    |                 |

\* Compared to same month in the previous year. \*\* Annual rate (monthly figures are multiplied by 12 to reflect annual levels). Unless otherwise noted, data are seasonally adjusted and percent change is from previous period. Source: Statistics Canada, Canada Mortgage and Housing Corp.

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## Average Weekly Earnings (\$)



## Are the Worst Off in the West Catching Up?

It has become a bit of a cliché that the West is now Canada's economic engine. With 37% of the country's exports (compared to 31% of its population) and a higher GDP per capita than the national average, the region has attracted significant interprovincial migration. While the recent recession has somewhat dampened this pattern, it is safe to say that the West is now more prosperous than it was two decades ago.

Given this, did this prosperity help reduce the number of underprivileged Westerners? While it is often said that all boats go up with a rising tide, this does not always apply to all groups within a given population. Many factors limit a society's capacity to improve the standard of living of those who need it the most, which would allow them the chance to catch up with the average, as opposed to simply keeping up. In the West's case, not only does the region comprise the majority of Canadian Aboriginals, who face well-documented lower income issues and faster demographic growth, but the economic magnet phenomenon described earlier could very well create more problems in the region as unemployed Canadians from elsewhere move here.

Just to make things a bit more complex, defining and measuring low income is not a game for the faint-hearted. This is because a person's income provides only a limited view of her living conditions. The number of adults and children in the household, price levels in the community and the level of support provided by governments through transfers (net of the taxes paid to them) are all meaningful variables as one attempts to accurately portray the living conditions of the least fortunate. Additionally, those measures evolve through time to reflect a number of changes, especially inflation.

One such measure is Low-Income Cutoffs after tax (or LICO-AT), which is estimated at the national level. When looking at the number of persons whose income falls below LICO-AT as expressed as a share of total population in the West (see chart), it is evident that fewer and fewer persons are now living under the LICO-AT line compared to the average over the last decade.

In fact, whereas the proportion of low-income individuals was higher than the Canadian average in three of the four western provinces in 1991, the opposite is now true. At 5.5% in 2008, Alberta has the second-lowest incidence of persons below LICO-AT in Canada, behind PEI. Saskatchewan comes third at 6.7%, having somewhat matched Alberta's downward path after 1999. Manitoba started the previous decade with the worst ratio in Canada but it rapidly caught up to the average. Due to the high cost of shelter, BC's sub-LICO-AT decline has not been as substantial and is still Canada's highest at 11.3%.

So the answer is yes, on the whole, and compared to the national average, that the group of lower-income westerners is ahead of previous generations that were found in the same situation. While many historic and economic reasons underlie these data, effective public policy appears to have chipped away at this demanding issue.

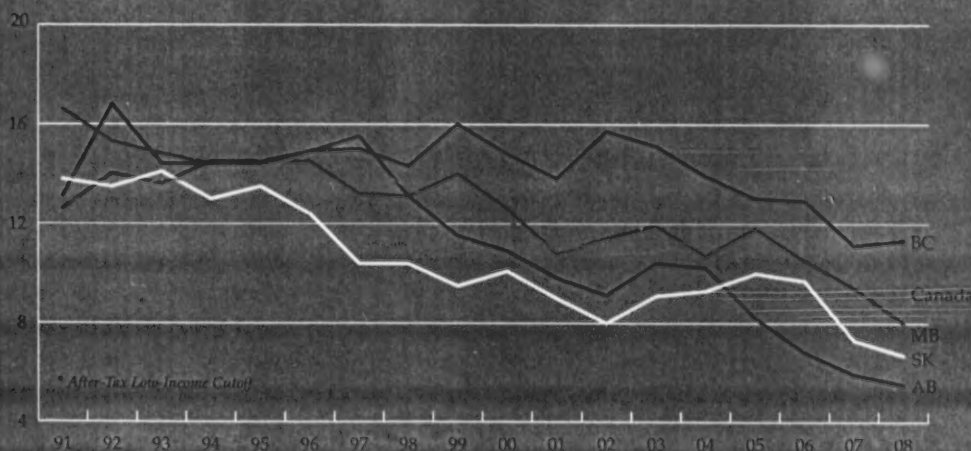
### Did you know?

Low income measures are not poverty measures. In Canada, there is no standard definition of poverty. According to Statistics Canada, "poverty is intrinsically a question of social consensus, at a given point in time and in the context of a given country. Someone acceptably well off in terms of the standards in a developing country might well be considered desperately poor in Canada."

A low-income cutoff (LICO) is the income level where the basic necessities of life (food, shelter and clothing) become too big a financial burden for a family. Statistics Canada sets the LICO level at the point where a family spends 20% more of its income on those necessities than the average family of the same size would. An after-tax low-income measure means that government-mandated income redistribution (taxes paid and transfers received by individuals) is taken into account.

Incidence of Low-Income (%) using the LICO-AT\* (1991-2008)

Source: Statistics Canada and Canada West Foundation

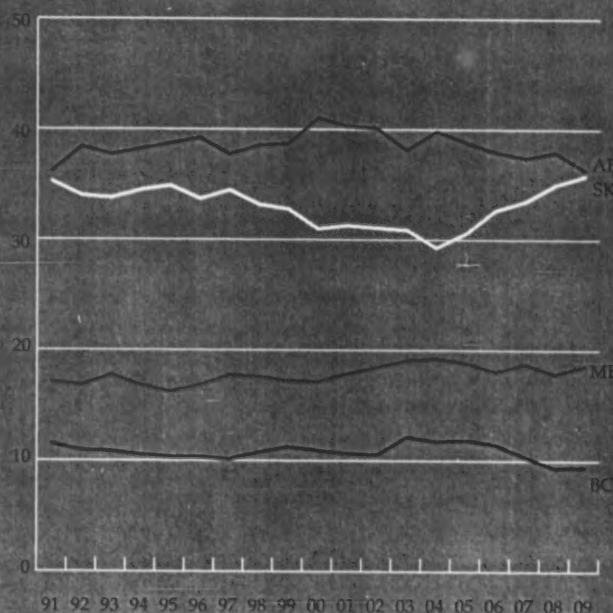


## BEHIND THE NUMBERS

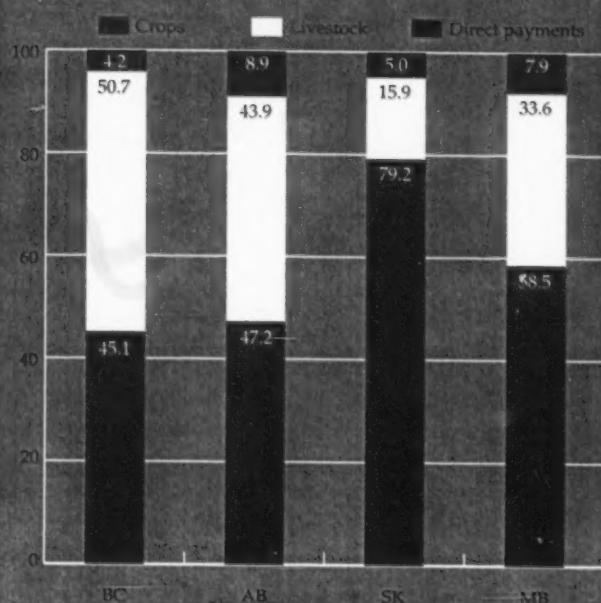
Farm income advanced in all Western provinces except Alberta in 2009. Alberta has captured the West's largest share of farm income over the last two decades but market difficulties in the livestock industry and the growth in Saskatchewan's canola and lentil crop revenue recently narrowed the gap between the two provinces.

The sources of revenue for the West's farms vary across the region, reflecting geographic and climate diversity. Saskatchewan is dominated by canola, lentils and wheat. Manitoba's crops are similar to Saskatchewan's, except that its soil is not appropriate for lentils. In addition, Manitoba's livestock farming is dominated by hogs. Alberta's farm income is derived mainly from cattle and canola. As to BC, while it is famous for its fruit, vegetable and flower growers (some using greenhouses), it derives more income from livestock, mainly dairy products and chickens. But in the end, direct payments such as crop insurance remain a key source of income for farmers in the West.

Share of the West's Farm Income (%)



Source of Farm Income, 2009 (%)



Source: Statistics Canada, Canada West Foundation

### Industry Spotlight: Saskatchewan

#### Potash

Nearly all of the world's potash is used in fertilizers to enhance water retention in plants, and increase crop yields and disease resistance. As potash is without a substitute in fertilizer manufacturing, it is essential for global food production.

PotashCorp produces 20% of global capacity, and has a century's worth of production reserves. With six of its seven mines in Saskatchewan, PotashCorp has developed to become one of Canada's most significant companies, providing an annual average of some \$427 million in taxes and royalties over the five years to 2009.

Key destinations for Saskatchewan potash include the United States, which receives 45% of exports, and China, already the world's largest market for potash and poised for further rapid growth. Saskatchewan's potash industry seems well positioned for the future, however like other commodities potash will continue to be subject to world price fluctuations.



Worker inspecting the equipment that screens potash in PotashCorp's Lanigan, Saskatchewan mine

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## Saskatchewan's Potash King Makers

Saskatchewan's vast reserves of potassium carbonate mineral deposits were first discovered in 1943 during an oil drilling operation, and with active exploration from 1951, Saskatchewan's potash went on to become a lucrative input for the global fertilizer industry.

Today the future is bright for both PotashCorp—the world's largest producer of potash—and Saskatchewan. BHP Billiton's \$40 billion bid in August to acquire the company is a sign that the significant resource opportunity in Saskatchewan, and an investment climate which is positive enough, result in a favorable situation to attract major capital from this multi-national resources giant. Some analysts are predicting the deal to be the largest acquisition in Canadian history, but the offer may need to rise by at least \$15 billion to clinch success.

The company's board urged shareholders to reject BHP Billiton's offer of \$130 per share, describing it as "wholly inadequate," given that as a plant nutrient, potash has no substitute and PotashCorp controls vast reserves of the stuff (see industry spotlight on previous page). There are also significant barriers to entry for new miners and producers, and the potential for substantial growth in world demand as markets recover from the 2009 recession.

Policy makers face important decisions in driving the best deal for Canada and Saskatchewan. Recently the Canadian government has allowed several large foreign acquisitions including Alcan by Rio Tinto, and Inco by Vale. While the Province can't stop a bid outright, it can influence Ottawa's decision on foreign takeover approval under the *Investment Canada Act*.

The assessment of how global potash prices will be affected by a takeover is central to royalty incomes flowing to the provincial government. The Saskatchewan government has expressed concerns about the potential dismantling of Canpotex as the single largest marketer and exporter of potash. An erosion of Canpotex's marketing power could lead to lower potash prices, and reduced revenue for Saskatchewan.

In response, CEO of BHP Marius Kloppers has conceded that BHP's original bid plan to market potash independently outside of Canpotex might not happen, even though BHP may see benefits in operating as the lowest cost producer of potash at higher volumes.

BHP's offer is on the table until 19 October 2010, and the search for a rival bidder continues. There is speculation that China's state owned Sinofert may join the fray as part of a rival bid; however, as major potash consumers their chief motivation would be towards lowering of global potash prices, something not in the best interests of Saskatchewan in terms of royalty streams. Foreign investment from state owned enterprises like Sinofert would also face a different and more onerous set of Canadian regulatory hurdles.

The challenge for policy makers is to find the right balance between protecting Canadian interests, including shareholder interests, jobs and local communities, while still driving a good deal for long-term economic prosperity. An example of this is that Saskatchewan already has legislation in place to ensure the head offices of foreign takeover targets remain in the province. Whether the scale of this current potential deal will drive further foreign investment regulatory reform in Saskatchewan and Canada remains to be seen.

Interestingly, the uranium miner Cameco, another of Saskatchewan's most significant companies, is in the process of developing a uranium play in Western Australia and may end up cooperating with BHP on a transportation hub in Australia for uranium ore.

Ultimately, the foreign investment interest generated by the BHP offer for potash is good for Saskatchewan and Canada, and evidence of a dynamic and growing economy, including investment relationships that extend "down-under." The scale of the potential deal is also an indication of the natural comparative advantage in Saskatchewan for potash, and the strength of the potash production and marketing business that has been "home grown" in Canada over many decades. ■